MOODY'S INVESTORS SERVICE

CREDIT OPINION
3 May 2024

Update

Send Your Feedback

Santander Bank Polska S.A.

Update following ratings affirmation

Summary

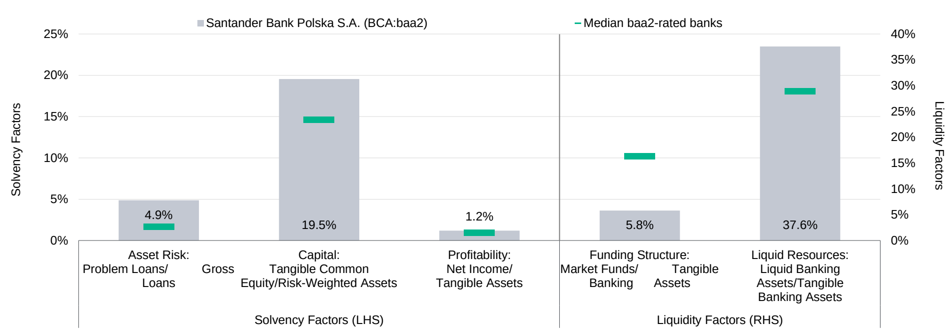
On 10 April we affirmed Santander Bank Polska S.A.'s (SBP) A2/Prime-1 deposit and A3 senior unsecured debt ratings with a stable outlook.

SBP´s deposit and senior unsecured debt ratings incorporate the bank's standalone Baseline Credit Assessment (BCA) of baa2; our assumption of moderate parental support from Banco Santander S.A. (Spain) (Banco Santander, A2 positive, baa1[1]), which results in one notch of uplift from the bank's BCA to a baa1 Adjusted BCA; the results of our Advanced Loss Given Failure (LGF) analysis, which takes into account the severity of loss faced by different liability classes in resolution and leads to two notches of uplift for SBP's deposit rating and one notch of uplift for the bank's senior unsecured debt rating; and our assumption of a moderate likelihood of support from the Government of Poland (A2 stable) if necessary, which does not result in any additional rating uplift.

SBP's baa2 BCA captures the bank's improved and strong profitability and large excess capitalization, which combined provide it with significant buffers to absorb additional losses from its exposure to Swiss franc mortgages. The BCA also captures the bank's relatively high level of problem loans, owing to a riskier allocation towards consumer and SME loans, its good funding profile, with low reliance on market funds but comparatively high concentration to less stable corporate deposits, as well as its large liquidity buffers.

Exhibit 1

Key financial ratios



Source: Moody's Financial Metrics

RATINGS

Santander Bank Polska S.A.

Domicile	Warsaw, Poland
Long Term CRR	A1
Type	LT Counterparty Risk Rating - Fgn Curr
Outlook	Not Assigned
Long Term Debt	(P)A3
Type	Senior Unsecured MTN - Fgn Curr
Outlook	Not Assigned
Long Term Deposit	A2
Type	LT Bank Deposits - Fgn Curr
Outlook	Stable

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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Credit strengths

» Despite the distribution of dividends, capital buffers will remain strong

» Good earnings generation capacity in a high interest rate environment

» Ample pool of liquid resources

Credit challenges

» Moderate asset risk, stemming from a high exposure to riskier segments

» Residual exposure to Swiss franc mortgages, which exposes the bank to legal risks

» Some dependence on corporate deposits

Outlook

The stable outlook on SBP's long-term deposit rating reflects our view that the bank's credit profile and its liability structure will remain broadly unchanged over the next 12-18 months.

Factors that could lead to an upgrade

» SBP's A2 long-term deposit and (P)A3 senior unsecured MTN programme ratings could be upgraded if the bank's Adjusted BCA is upgraded or due to additional issuances of bailinable instruments that would result in a higher notching uplift from our Advanced LGF analysis.

» The bank's BCA could be upgraded following an improvement in asset quality while maintaining its strong profitability and capitalization. A one notch upgrade of SBP's BCA would eliminate the one notch of uplift due to parental support and would not result in an upgrade of its Adjusted BCA.

Factors that could lead to a downgrade

» A lower BCA or reduced uplift from our Advanced LGF analysis would likely be offset by government support uplift for SBP's deposit and senior unsecured debt MTN programme ratings.

» SBP's BCA could be downgraded owing to a material decline in its capitalization significantly weaker asset quality, or a weakening in its funding profile and liquidity.

Key indicators

Exhibit 2

Santander Bank Polska S.A. (Consolidated Financials) [1]

	12-23[2]	12-22[2]	12-21[2]	12-20[2]	12-19[2]	CAGR/Avg.[3]
Total Assets (PLN Billion)	265.9	251.4	237.8	224.9	209.5	6.1[4]
Total Assets (USD Million)	67,610.2	57,307.1	58,662.0	60,349.5	55,305.8	5.2[4]
Tangible Common Equity (PLN Billion)	29.5	27.0	24.5	22.8	21.7	8.0[4]
Tangible Common Equity (USD Million)	7,498.1	6,161.6	6,046.5	6,108.3	5,718.6	7.0[4]
Problem Loans / Gross Loans (%)	4.6	5.0	5.0	5.8	5.2	5.1[5]
Tangible Common Equity / Risk Weighted Assets (%)	19.5	18.6	16.7	15.6	14.3	17.0[6]
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	21.3	23.4	24.7	29.1	28.3	25.4[5]
Net Interest Margin (%)	5.0	4.0	2.6	2.7	3.2	3.5[5]
PPI / Average RWA (%)	7.1	4.7	3.2	2.4	2.9	4.1[6]
Net Income / Tangible Assets (%)	1.9	1.2	0.5	0.6	1.2	1.1[5]
Cost / Income Ratio (%)	34.4	44.4	49.7	58.3	54.2	48.2[5]
Market Funds / Tangible Banking Assets (%)	5.8	8.3	8.0	8.1	9.4	7.9[5]
Liquid Banking Assets / Tangible Banking Assets (%)	37.6	35.9	36.5	34.9	27.7	34.5[5]
Gross Loans / Due to Customers (%)	77.5	79.1	80.9	85.0	93.6	83.2[5]

[1] All figures and ratios are adjusted using Moody's standard adjustments. [2] Basel III - fully loaded or transitional phase-in; IFRS. [3] May include rounding differences because of the scale of reported amounts. [4] Compound annual growth rate (%) based on the periods for the latest accounting regime. [5] Simple average of periods for the latest accounting regime. [6] Simple average of Basel III periods.

Sources: Moody's Ratings and company filings

Profile

Santander Bank Polska S.A. (SBP) is a universal commercial bank in Poland, with a reported 11.0% market share in customer deposits and 12.1% share in loans as of year-end 2023. The bank provides retail and corporate clients with banking and other financial services, including securities trading, leasing, factoring, insurance and asset management.

SBP was established in 2001, following the merger of Bank Zachodni S.A. with Wielkopolski Bank Kredytowy S.A. In September 2018, the bank rebranded itself as Santander Bank Polska S.A. from Bank Zachodni WBK S.A. It has been listed on the Warsaw Stock Exchange since 2001. As of June 2023, Banco Santander held a 67.4% stake in SBP.

Detailed credit considerations

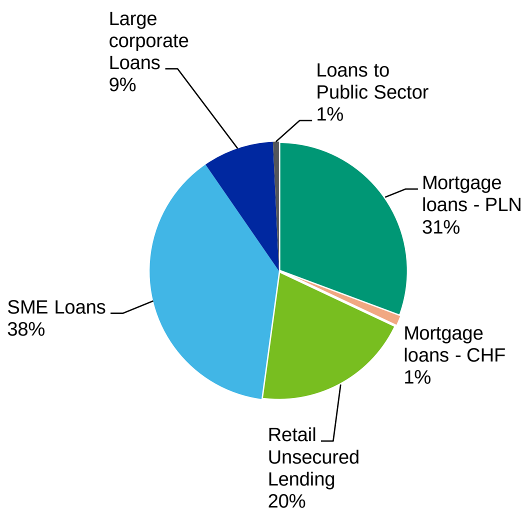
Moderate asset risk, stemming from high exposure to riskier segments

We assign SBP an Asset Risk score of ba2, two notches below the initial score, reflecting the bank´s high share of riskier SME and unsecured consumer lending, generating a higher cost of risk than peers and a relatively lower coverage of nonperforming loans (NPLs).

SBP's NPL ratio was 4.6% as of year-end 2023, down from 5.0% in 2022 because of substantial NPL sales during the year, but was still slightly higher than the 4.4% domestic peer average, whereas the stage 2 ratio was very low at 5.4%, less than half the 11.5% sector average. Loan loss reserve coverage remained almost unchanged year-on-year at 75%, below the 89% peer average.

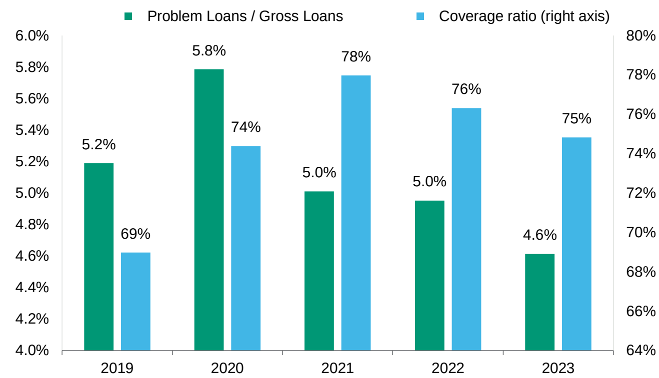
The bank continued to grow loans moderately, with gross loans at PLN165 billion as of year-end 2023, up 4% from a year earlier, while the banking sector's loans to non-financial companies modestly declined. Around a fifth of SBP's loan book, above the 14% peer average, comprises unsecured consumer loans, which typically entail higher credit risk. The share of corporate financing was also particularly high, representing 47% of total lending as of year-end 2023, the majority of which were loans to SMEs.

Exhibit 3
SBP displays high exposure to the relatively riskier SME and retail unsecured segments
As a percentage of gross loans as of year-end 2023



Source: Company filings

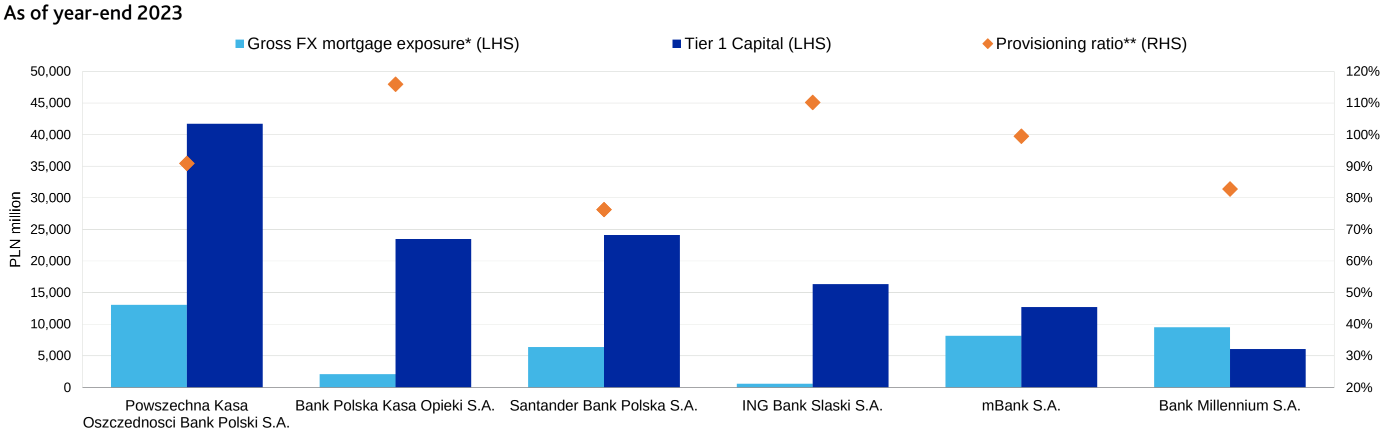
Exhibit 4
Problem loans well below system average; modestly covered by loan loss reserves



Coverage ratio = loan loss reserves/problem loans.
Sources: Company filings and Moody´s Ratings

SBP's gross Swiss franc mortgages before the deduction of legal risk provisions represented roughly 3.8% of the loan book as of year-end 2023, down from 5.2% in 2022, broadly in line with the sector average. In Swiss franc terms, the bank reduced this legacy exposure further by 56% in 2023. During the same time, SBP substantially improved its legal risk coverage, provisioning 76% of its Swiss franc mortgages, up from 42% as of year-end 2022. However, it ranks among the banks with the lowest coverage rate, with the system average coverage around 90%.

Exhibit 5
Swiss franc mortgage exposure of Polish banks we rate
As of year-end 2023



*Gross exposure to active loans before the deduction of legal risk provisions.
**Includes both provisions deducted from the carrying value of loans and those on the liability side.
Sources: Company filings and Moody´s Ratings

Still strong capital buffers despite sizeable dividends

Our assigned Capital score of a3, two notches below the initial score, reflects the bank's strong capitalisation, but also its large dividend payouts and the residual legal risks stemming from the bank´s legacy Swiss franc mortgage portfolio.

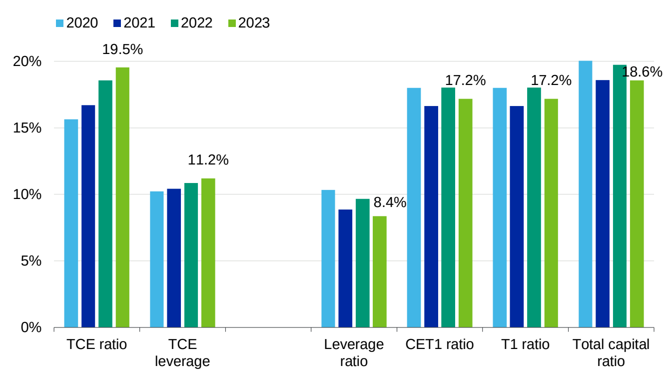
As of year-end 2023, SBP's tangible common equity (TCE)/risk-weighted assets (RWA), our preferred capital measure, was the highest among domestic peers at 19.5%, up from 18.6% in 2022, due to high internal capital generation and despite an interim dividend of PLN2.4billion paid out in December 2023 and a share buyback.[2] In March 2024, the management of SBP recommended to distribute PLN3.5 billion out of the 2023 profit and an additional PLN1.1 billion out of the dividend reserve. As a result of the planned dividend payout, the TCE/RWA ratio will drop to 16.5%.

SBP's Tier 1 capital ratio, which did not include profit generated in 2023, was 17.2% as of year-end 2023, well above the bank's 9.5% minimum capital requirement, and its total capital ratio was 18.6%. In its 2024-26 strategy, SBP stated its intention to distribute the highest possible dividends, within the limits set by the regulator.

In December 2023, the Polish Financial Supervision Authority (Komisja Nadzoru Finansowego, KNF) imposed an add-on capital buffer (Pillar 2) of 0.013% on SBP. The carrying amount of active Swiss franc mortgages accounted for a moderate 9.6% of the bank's Tier 1 capital as of year-end 2023, in line with the sector average. SBP has the capacity to withstand a full write-off of its active Swiss franc exposure. SBP will likely face additional provisioning needs arising from repaid Swiss franc mortgages, for which the borrowers maintain the right to sue the banks. However, SBP, like other Polish banks, will be able to absorb the additional costs over time.

Exhibit 6

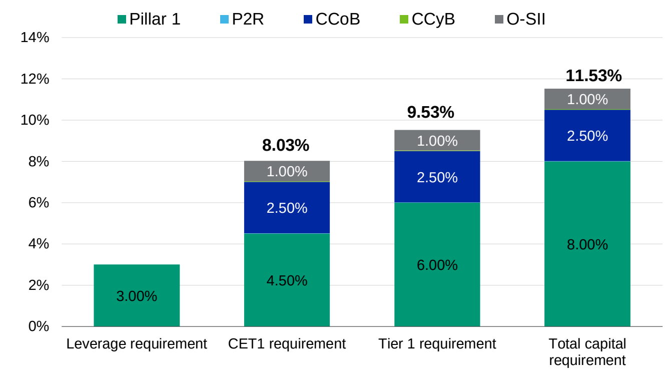
Despite the distribution of dividends, capital buffers are still strong
As a percentage of RWA



TCE ratio: Tangible common equity calculation according to our methodologies.
Sources: Company filings and Moody's Ratings

Exhibit 7

SBP´s capital requirements
As of year-end 2023



CCoB = Capital conservation buffer; O-SII = Other systemically important institutions buffer; P2G = Pillar 2 requirement; CCyB = Countercyclical Capital Buffer
Sources: Company filings and Moody's Ratings

Good earnings generation capacity in a high interest rate environment

The assigned baa2 Profitability score is in line with the initial score. Our assessment incorporates the expectation that SBP will maintain strong profitability, owing to robust margins driven by persisting high interest rates in Poland and despite the potential need for further legal risk provisions and higher credit costs in 2024.

SBP reported PLN4.9 billion net profit in 2023, which is 64% higher than the result in the previous year. Consequently, our Moody's-adjusted net income/tangible asset ratio improved to 1.9% in 2023, from 1.2% in 2022.

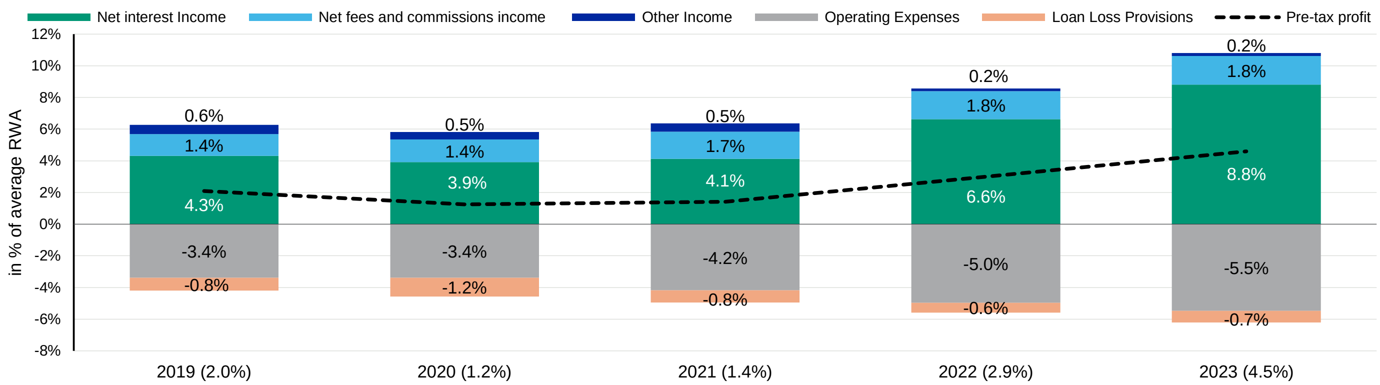
SBP´s exposure to relatively riskier lending segments led on the one hand to a high interest margin (NIM) of 5.0% in 2023, the highest among the largest players in the Polish market, but also to a cost of risk of 67 basis points (bps) in the same period, above the industry average of 52 bps. For 2024 we expect that the bank will be able to maintain high margins, supported by growing lending volumes, but will also face an increase in the cost of credit from current levels. In 2023 SBP booked PLN2.6 billion provisions relating to its exposure to Swiss franc mortgages. Despite the increase in legal risk provisions, SBP's coverage level is still lower than peers, thus we expect provisioning to continue in 2024, although to a lesser extent than in 2023.

In March 2024, the Polish government announced an extension of the mortgage moratorium. The implementation of the new moratorium will be more restrictive[3] and will allow borrowers to postpone the payment of only four instalments, compared with the eight granted in 2022. Therefore, the effects of this measure will be much more moderate compared with the impact in 2022[4].

In 2023, SBP's cost-to-income ratio was 34.4%, below the peer average of 37.2%, demonstrating good operational efficiency. We expect the ratio in 2024 to fall short of the low 2023 levels, due to our expectation of higher operating costs stemming from continued high inflation.

Exhibit 8

Operating efficiency and high interest rates support earnings



Sources: Company filings and Moody's Ratings

Good funding although with high reliance on corporate deposits

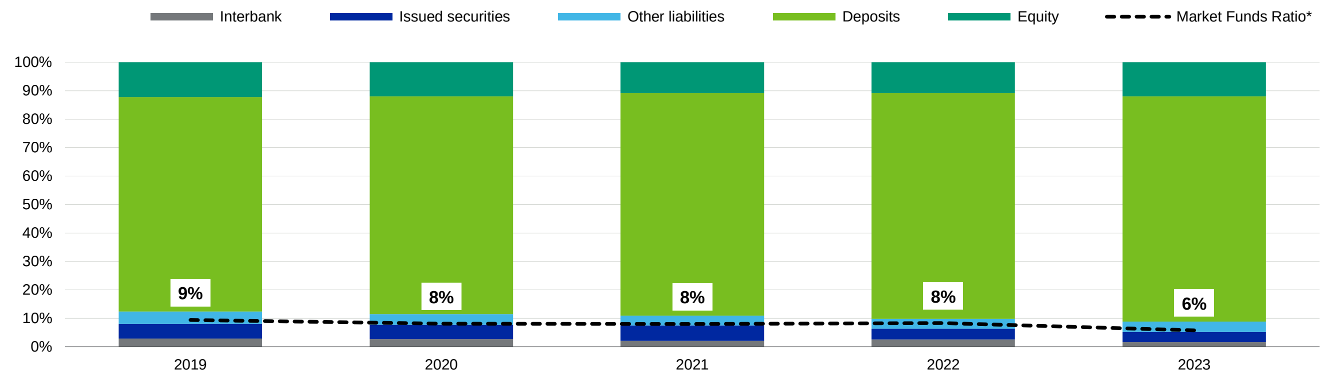
We assign a baa1 score for Funding Structure, one notch lower than the initial score, acknowledging the bank's robust deposit-based funding structure but also its dependence on external funding to adhere to its Minimum Requirement for Own Funds and Eligible Liabilities (MREL). Furthermore, the score reflects the bank's significant proportion of corporate deposits, which are more sensitive to confidence shifts.

SBP´s market funds accounted for a low 5.8% of tangible banking assets (TBA) and consisted mainly of MREL eligible debt and bank deposits.

SBP, as a subsidiary of Banco Santander, is subject to a multiple-point-of-entry resolution approach and has to issue its own MREL liabilities externally. In May 2023, SBP received its updated MREL requirements set by the Bank Guarantee Fund (BGF), Poland's resolution authority, at 15.39%[5] of the total risk exposure amount (TREA). The bank is also subject to a subordination requirement of 14.24%[6]. The MREL requirement was defined at the consolidated level and had to be met by 31 December 2023. As of year-end 2023, SBP´s MREL ratio was 23.3%, well above the regulatory minimum. As a member of the Banco Santander Group, SBP must also comply with total loss-absorbing capital (TLAC) requirements. For SBP, the TLAC requirement was 18.0% of the TREA.

As of year-end 2023, customer deposits, accounting for 86% of total liabilities, served as the primary funding source for SBP. Notably, one-third of these are term deposits, thus reducing the risk of bank runs. However, deposits from corporate customers, which are more sensitive to confidence levels, make up 41% of the total. The bank's loan-to-deposit ratio was 78% as of year-end 2023, broadly unchanged from 2022, but above the 70% peer average.

Exhibit 9
Predominantly deposit-based funding structure



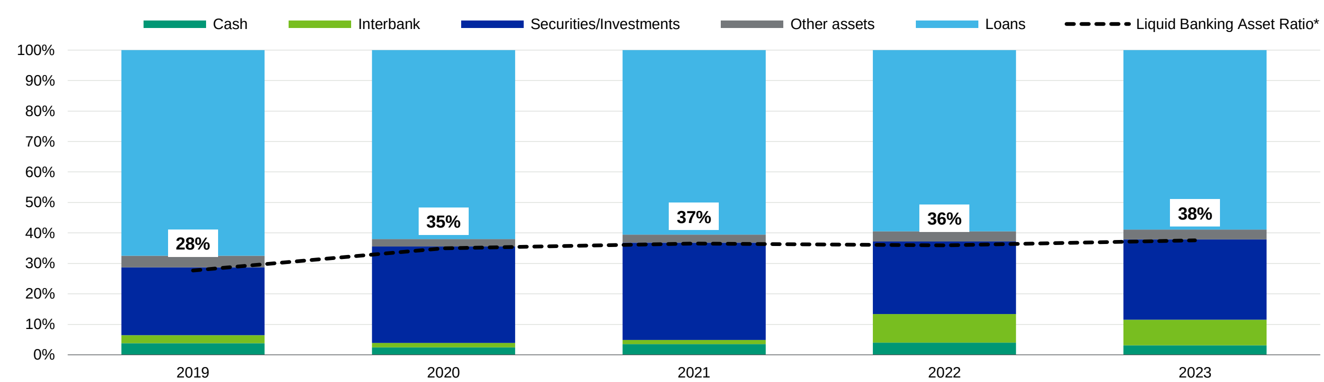
*Market funds ratio: Market funds/TBA.
Sources: Company filings and Moody's Ratings

Large liquidity buffers

We assign a score of baa1 for Liquid Resources to SBP, one notch below the initial score, in line with our expectation that liquidity will dip slightly in Poland, but remain at comfortable levels.

As of year-end 2023, SBP held liquid assets amounting to 37.6% of its TBA, up from 35.9% in 2022, around half of which consisted of Polish government bonds, partly measured at fair value and partly at amortized cost. There were no unrealized mark-to-market losses associated with the securities portfolio at amortized costs. SBP´s liquidity coverage ratio (LCR) and net stable funding ratio (NSFR) of 194% and 156%, respectively, as of year-end 2023 were both well above the regulatory required minimum of 100%.

Exhibit 10
SBP has ample liquid resources, primarily consisting of Polish government bonds

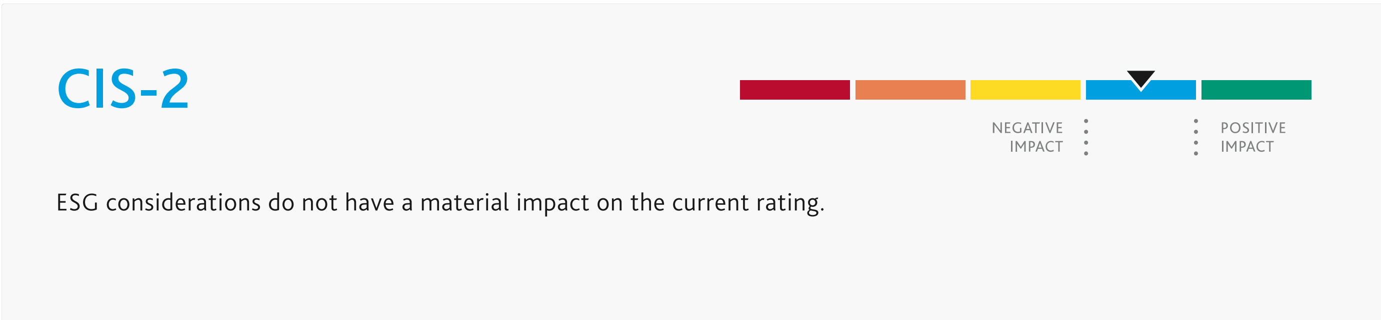


*Liquid banking assets ratio: Liquid assets/TBA.
Sources: Company filings and Moody's Ratings

ESG considerations

Santander Bank Polska S.A.'s ESG credit impact score is CIS-2

Exhibit 11
ESG credit impact score



Source: Moody's Ratings

SBP's ESG Credit Impact Score **CIS-2** indicates that ESG considerations do not have a material impact on the current rating.

Exhibit 12
ESG issuer profile scores

Source: Moody's Ratings

Environmental

SBP faces moderate exposure to environmental risks, primarily because of its portfolio exposure to carbon transition risk as a diversified bank. In line with peers, SBP is facing mounting business risks and stakeholder pressure to meet broader carbon transition goals. In response, SBP is actively engaging in further developing its comprehensive risk management and climate risk reporting frameworks and transitioning its lending and investment portfolios to achieve carbon neutrality targets.

Social

SBP's exposure to social risks is high, stemming principally from demographics and social trends as well as customer relations. On societal trends, banks in Poland have been exposed to the government's interventionist policies, which demonstrate its predisposition towards supporting social policy at the detriment of banks' financial performance. Further, the bank faces high industrywide social risks related to customer relations and associated regulatory risks, litigation exposure, and high compliance standards in its diversified operations. These risks are mitigated by SBP's developed policies and procedures. SBP's high cyber and personal data risks are mitigated by the bank's sound IT framework.

Governance

SBP faces low governance risks, and its risk management framework, policies and procedures are in line with industry practices. The bank has a strong and long-standing track record of prudent financial policies and strategies as well as steady "through the cycle" performance. SBP is effectively controlled by Banco Santander S. A. through its 67.4% ownership. The bank is however run with relative independence from the group, with little parent representation in the board and a majority of independent directors.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moodys.com. In order to view the latest scores, please click here to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

Support and structural considerations

Affiliate support

We assess a moderate probability of parental support for SBP from its parent Banco Santander because of its 67.4% ownership stake in SBP and Banco Santander's commitment to its Polish business. Our assessment results in one notch of uplift from SBP's baa2 BCA to an Adjusted BCA of baa1.

Loss Given Failure (LGF) analysis

SBP is subject to the EU Bank Recovery and Resolution Directive (BRRD), which is an operational resolution regime. We assume residual TCE of 3% and post-failure losses of 8% of TBA, a 25% runoff in junior wholesale deposits, a 5% runoff in preferred deposits and a 26% proportion of junior deposits (EU average), and assign a 25% probability to deposits being preferred to senior unsecured debt. These assumptions are in line with our standard assumptions.

This results in a Preliminary Rating Assessment (PRA) of a2 for the deposit rating, two notches above the Adjusted BCA, reflecting a very low loss given failure.

The PRA for the senior unsecured debt rating is a3, which reflects a low loss given failure.

Government support considerations

We incorporate a moderate likelihood of government support for SBP's deposits and senior unsecured debt in the event of its failure, given the bank's importance to the Polish banking system. However, this does not provide any rating uplift at the current sovereign rating level.

Counterparty Risk Ratings (CRRs)

SBP's CRRs are A1/P-1

The bank's CRRs are positioned three notches above the Adjusted BCA of baa1, reflecting an extremely low loss given failure from a high volume of subordinated instruments. In addition, the moderate probability of government support does not result in any uplift.

Counterparty Risk (CR) Assessment

SBP's CR Assessment is A1(cr)/P-1(cr)

The CR Assessment of SBP is positioned at A1(cr), three notches above the Adjusted BCA of baa1, based on the buffer against default provided to the senior obligations. In addition, the moderate probability of government support does not result in any uplift.

Methodology and scorecard

About Moody's Bank Scorecard

Our scorecard is designed to capture, express and explain in summary form our Rating Committee's judgement. When read in conjunction with our research, a fulsome presentation of our judgement is expressed. As a result, the output of our scorecard may materially differ from that suggested by raw data alone (though it has been calibrated to avoid the frequent need for strong divergence). The scorecard output and the individual scores are discussed in rating committees and may be adjusted up or down to reflect conditions specific to each rated entity.

Rating methodology and scorecard factors

Exhibit 13

Santander Bank Polska S.A.

Macro Factors						
Weighted Macro Profile	**Moderate +**	**100%**				

Factor	**Historic Ratio**	**Initial Score**	**Expected Trend**	**Assigned Score**	**Key driver #1**	**Key driver #2**
Solvency						
Asset Risk						
Problem Loans / Gross Loans	4.9%	baa3	↔	ba2	Quality of assets	Sector concentration
Capital						
Tangible Common Equity / Risk Weighted Assets (Basel III - fully loaded)	19.5%	a1	↓↓	a3	Capital retention	Stress capital resilience
Profitability						
Net Income / Tangible Assets	1.2%	baa2	↔	baa2	Return on assets	Expected trend
Combined Solvency Score		baa1		baa2		
Liquidity						
Funding Structure						
Market Funds / Tangible Banking Assets	5.8%	a3	↔	baa1	Deposit quality	Extent of market funding reliance
Liquid Resources						
Liquid Banking Assets / Tangible Banking Assets	37.6%	a3	↔	baa1	Stock of liquid assets	Expected trend
Combined Liquidity Score		a3		baa1		
Financial Profile				baa2		
Qualitative Adjustments				Adjustment		
Business Diversification				0		
Opacity and Complexity				0		
Corporate Behavior				0		
Total Qualitative Adjustments				0		
Sovereign or Affiliate constraint				A2		
BCA Scorecard-indicated Outcome - Range				baa1 - baa3		
Assigned BCA				baa2		
Affiliate Support notching				1		
Adjusted BCA				baa1		

Balance Sheet	**in-scope (PLN Million)**	**% in-scope**	**at-failure (PLN Million)**	**% at-failure**
Other liabilities	38,637	14.7%	59,887	22.7%
Deposits	208,327	79.1%	187,078	71.1%
Preferred deposits	154,162	58.6%	146,454	55.6%
Junior deposits	54,165	20.6%	40,624	15.4%
Senior unsecured bank debt	3,100	1.2%	3,100	1.2%
Junior senior unsecured bank debt	2,769	1.1%	2,769	1.1%
Dated subordinated bank debt	2,551	1.0%	2,551	1.0%
Equity	7,898	3.0%	7,898	3.0%
Total Tangible Banking Assets	263,283	100.0%	263,283	100.0%

Debt Class	De Jure waterfall		De Facto waterfall		Notching		LGF Notching Guidance vs. Adjusted BCA	Assigned LGF notching	Additional Notching	Preliminary Rating Assessment
	Instrument volume + subordination	Sub-ordination	Instrument volume + subordination	Sub-ordination	De Jure	De Facto				
Counterparty Risk Rating	21.6%	21.6%	21.6%	21.6%	3	3	3	3	0	a1
Counterparty Risk Assessment	21.6%	21.6%	21.6%	21.6%	3	3	3	3	0	a1 (cr)
Deposits	21.6%	5.0%	21.6%	6.2%	2	2	2	2	0	a2
Senior unsecured bank debt	21.6%	5.0%	6.2%	5.0%	2	0	1	1	0	a3

Instrument Class	Loss Given Failure notching	Additional notching	Preliminary Rating Assessment	Government Support notching	Local Currency Rating	Foreign Currency Rating
Counterparty Risk Rating	3	0	a1	0	A1	A1
Counterparty Risk Assessment	3	0	a1 (cr)	0	A1(cr)	
Deposits	2	0	a2	0	A2	A2
Senior unsecured bank debt	1	0	a3	0	(P)A3	(P)A3

[1] Where dashes are shown for a particular factor (or sub-factor), the score is based on non-public information.
Source: Moody's Ratings

Ratings

Exhibit 14

Category	Moody's Rating
SANTANDER BANK POLSKA S.A.	
Outlook	Stable
Counterparty Risk Rating	A1/P-1
Bank Deposits	A2/P-1
Baseline Credit Assessment	baa2
Adjusted Baseline Credit Assessment	baa1
Counterparty Risk Assessment	A1(cr)/P-1(cr)
Senior Unsecured MTN	(P)A3

Source: Moody's Ratings

Endnotes

1 The bank ratings shown in this report are the bank's deposit rating and BCA.

2 The dividend was paid out of the capital reserve created with the undistributed profit earned by the bank in 2022.

3 The suspension of loan repayment will be possible only if the mortgage value does not exceed PLN1.2 million and the instalment exceeds 30% of the household income or the borrowers are raising three children.

4 The adverse effect in 2022 amounted to PLN1.5 billion

5 In addition to the combined buffer requirement (CBR).

6 In addition to the CBR.

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